

BEFORE THE
POSTAL RATE COMMISSION

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POSTAL RATE AND FEE CHANGES, 2000

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POSTAL RATE COMMISSION
BY THE SECRETARY

COMMENTS OF UNITED PARCEL SERVICE
ON RECONSIDERATION
(January 12, 2001)

United Parcel Service ("UPS") submits these comments on reconsideration pursuant to Commission Order No. 1301 (December 11, 2000).

UPS anticipates that a number of parties will address the question whether the Commission "exceeded its lawful authority" when it reduced the Postal Service's requested revenue requirement. Decision of the Governors of the United States Postal Service on the Recommended Decision of the Postal Rate Commission on Postal Rate and Fee Changes, Docket No. R2000-1, at 1 (December 4, 2000). Since we do not wish to burden the Commission with additional argument on that point, we limit our comments to observing that, in UPS's view, the Commission has the authority to adjust the Postal Service's revenue requirement (although, as always, the Commission's actions must be based on substantial evidence in the record). UPS's position on the Postal Service's requested contingency provision has already been set forth in the Initial Brief of United Parcel Service filed with the Commission on September 13, 2000 (at page 92).

In their decision, the Governors also addressed, among other things, the Commission's recommendation to extend the Parcel Post nonmachinable surcharge to intra-BMC and DBMC parcels. Governors Decision at 14. The Governors endorsed the Commission's recommendation to extend the surcharge, but at the same time expressed their concern "that the Commission chose to incorporate the full additional handling cost into the surcharge all at once in this case." *Id.* In the Governors' view, the full amount of the required surcharges should be phased in over time. *Id.*

Despite their concern, the Governors apparently have not requested reconsideration of this aspect of the Commission's decision. When the Governors desire reconsideration, they expressly ask for it. See Governors Decision at 13, 14 concerning the First-Class Mail additional ounces, Bound Printed Matter, and Nonprofit Standard Mail issues. The Governors did not do so with respect to the Parcel Post nonmachinable surcharges. Governors Decision at 14 concerning Parcel Post. The Commission also seems to be unsure whether reconsideration was being requested on that issue. Order No. 1301 at 2 ("The Governors also protest that rates should be increased . . . , *possibly*, to allow for a reduction in certain parcel post surcharges") (emphasis added).

Any doubt on that score seems to have been resolved by the Postal Service's comments in response to Order No. 1301. The Postal Service there states that, in addition to the revenue requirement issue, "the Governors identified three other matters where reconsideration and adjustment might be warranted." Memorandum of the United States Postal Service on Reconsideration and Request for Expedition (December 20, 2000) at 3-4. The Postal Service did not include the Parcel Post

nonmachinable surcharges among those matters. Thus, it appears that the Parcel Post nonmachinable surcharges are not before the Commission on reconsideration.

But even if the Parcel Post nonmachinable surcharges are now before the Commission, the surcharges recommended by the Commission and allowed to take effect by the Governors are fully supported by the record. Perhaps the single most important ratemaking requirement contained in the statute is that each class "or type" of mail cover the costs caused by it. 39 U.S.C. § 3622(b)(3). The Governors do not contest the Commission's findings concerning the additional costs caused by nonmachinable Parcel Post intra-BMC and DBMC pieces. And as the Commission noted, "No participant oppose[d] the proposed surcharges." Commission Decision at 488. Consequently, the alleged "uncertainty of the cost estimates underlying the [new] discounts and . . . surcharges" cited by the Parcel Shippers Association in its comments on reconsideration (Comments of Parcel Shippers Association on Reconsideration filed on January 9, 2001, at 4) ("PSA Comments") just does not exist. Indeed, because the intra-BMC and DBMC surcharges represent an extension of the long-standing inter-BMC nonmachinable surcharge, they are not even "new" surcharges in the usual sense; the methodology used to calculate a nonmachinability surcharge for Parcel Post is well-established.

PSA's attempt to argue that "There is no evidence in the record to suggest that mailers who send nonmachinable parcels are different than mailers who send machinable parcels" (PSA Comments at 4) misses the point. When the Commission stated in its Recommended Decision that the increased surcharges would "strike a reasonable balance among affected mailers" (Opinion at 482), it was undoubtedly

referring to the fact that surcharges which reflect all of the added costs of nonmachinability are more equitable than ones which do not, since inadequate surcharges result in cross-subsidies.

As noted above, the evidence in the record on the amount of the additional costs caused by nonmachinable intra-BMC and DBMC parcels is uncontested. Contrary to its assertion on page 5 of its Comments, PSA had ample opportunity to “address both the cost bases and the consequences of” surcharges reflecting the cost differences presented by the Postal Service. It just chose not to do so, in the apparent belief that the Commission would merely “rubber stamp” the Postal Service’s proposed surcharges despite the clear evidence that the proposed surcharges would be well below cost. Given PSA’s failure at the hearings to introduce even one iota of evidence to suggest that the substantial cost differences presented by the Postal Service are overstated, its belated speculations concerning the “Cost Basis,” the “Impact” on mailers, and the “Competitive Impact” of the surcharges come far too late.

The Commission was correct to adopt surcharges which cover the full additional costs of intra-BMC and DBMC nonmachinable parcels. It should reaffirm that decision on reconsideration.¹

Respectfully submitted,



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1. Indeed, were the Commission to reduce those surcharges, the Commission would have to recommend increases in other Parcel Post rates, so that Parcel Post would continue to cover its attributable costs plus its proper share of institutional costs as determined by the Commission.